Supreme Court, U. S.
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IN THE

Supreme Court of the United States

October Term, 1979

No. 79-1533

W.R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES,
Respondents.

W. R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,
Respondent.

APPENDIX VOLUME.

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APPENDIX VOLUME.

Judgment Upon Defendant's Motion for Directed Verdict; FRCP 50(a).

United States District Court, Central District of California.

W. R. Grace & Co., Inc., a corporation, Plaintiff, vs. Western U. S. Industries, Inc., a corporation, Defendant. Civil No. 74-2088-R.

Filed: May 16, 1975.

This cause having come on for trial before the Honorable Manuel L. Real and a duly empaneled jury on April 22, 23, 24 and 25, and on May 6, 1975; both parties having appeared by counsel; the plaintiff W. R. Grace & Co. having presented its case and rested; the defendant Western U. S. Industries,

Inc. having moved orally and in writing for a directed verdict pursuant to Rule 50(a) of the Federal Rules of Civil Procedure on the grounds, among others: that Design Patent 230,353 is invalid and/or unenforceable because of the fraudulent misrepresentations made to the Patent Office regarding the purported commercial success of the wheel design which is the subject matter of said patent; that the testimony and exhibits presented by the plaintiff and all the inferences which the jury could justifiably draw therefrom were insufficient to support a finding that California Trademark Registration No. 52,356 is valid, or that the term "WIRE MAG" is a valid trademark of the plaintiff, or that the defendant has committed acts which infringe upon said alleged trademark or dilute the value thereof, or that the defendant has competed unfairly with the plaintiff, or that Mr. Mochel is the sole inventor of the subject matter of Design Patent 230,353; and that during the representation of the plaintiff's case it was established as a matter of law, that the wheel design of the patent in suit taken as a whole, would have been obvious in 1971 to a designer having ordinary skill in the designing of custom automobile wheels:

And the Court having granted the motion of the defendant Western U. S. Industries, Inc. for a directed verdict;

And the defendant being the prevailing party and the Court having determined that this is an exceptional case under Section 285 of Title 35, United States Code, because of the fraudulent misrepresentation of material facts regarding alleged commercial success made to the Patent Office during the prosecution of the application which matured into Design Patent 230,-353, which misrepresentations constituted a serious breach of duty to the Patent Office:

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that:

1. This Court has jurisdiction of the subject matter of this action and over the parties hereto,

2. The plaintiff W. R. Grace & Co. is the owner of United States Design Letters Patent 230,353,

3. The plaintiff W. R. Grace & Co. is the owner of California Trademark Registration No. 52,356,

4. United States Design Letters Patent 230,353 is invalid and void,

5. California Trademark Registration No. 52,356 is invalid and void,

6. The Complaint is dismissed with prejudice,

7. The defendant Western U. S. Industries, Inc. is awarded reasonable attorneys fees pursuant to 35 U.S.C. 285, as to the present portion of the action, in the amount of $58,395.00, without prejudice to the inclusion of such attorneys fees as damages in any subsequent antitrust action, and

8. The defendant Western U. S. Industries, Inc. shall have and recover of the plaintiff W. R. Grace & Co., the taxable costs and disbursements of said Defendant in the sum of $58,395, and have execution therefor.

Dated: May 16, 1975.

/s/ Manuel L. Real
United States District Judge

Approved as to form [ ]
Disapproved as to form [X]

Receipt acknowledged, May 12, 1975, at 4:30 p.m.

LYON & LYON
By /s/ Thomas D. Kiley
Attorneys for Plaintiff

Judgment.

United States District Court, Central District of California.

W.R. GRACE & CO., INC., a corp., Plaintiff v. WESTERN U.S. INDUSTRIES, INC., a corp., Defendant. No. CV-74-2088-R.

W.R. GRACE & CO., INC., a corp., Plaintiff v. E-T INDUSTRIES, INC., a corp., and PYRAMID ENTERPRISES, INC., a corp., Defendants. No. CV-74-2089-R.

Filed: Feb. 10, 1978.

The Court having made its findings under Rule 52(a) F.R.C.P., IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

Plaintiff's complaint is hereby dismissed with prejudice with costs and attorneys' fees being assessed against Plaintiff W.R. Grace & Co.

Design Patent No. 230,353 is held invalid and not infringed and that proper notification be given to the U.S. Commissioner of Patents to this effect as provided under statute.

The words "wire mag" do not have any trademark significance and that the State trademark Registration No. 52,356 is invalid and that appropriate notification to this effect be given to the State of California as well as to the U.S. Patent and Trademark Office.

FDI, Inc., a Delaware corporation, with offices at 18451 Euclid Avenue, Cleveland, Ohio 44112, be substituted for E-T Industries and Pyramid Enterprises, Inc., since FDI, Inc. is the successor to these two corporations.

The amount of attorneys' fees which I assess against W.R. Grace & Co. and award to Defendants E-T Industries and Pyramid Enterprises pursuant to this judgment is $126,936.02, costs to be assessed as required by Local Rules.

The award is without prejudice to defendants' presently pending claim of treble punitive damages for antitrust violations and unfair competition in Civil Action No. 75-1532 L entitled *FDI, Inc. vs. W. R. Grace & Co., Inc.,* including treble attorneys' fees for defending this action.

DATED: February 10, 1978.

/s/ Manuel L. Real
MANUEL L. REAL
United States District Judge

Findings of Fact and Conclusions of Law.

United States District Court, Central District of California.

W. R. GRACE & CO., INC., a Corporation, Plaintiff, vs. WESTERN U. S. INDUSTRIES, INC., a Corporation, Defendant. CV 74-2088-R

W. R. GRACE & CO., INC., a Corporation, Plaintiff, vs. E-T INDUSTRIES, INC., a Corporation, and PYRAMID ENTERPRISES, INC., a Corporation, Defendants. CV 74-2089-R

Filed May 16, 1975.

FINDINGS OF FACT

1. W. R. Grace & Co., Inc. (GRACE), is a corporation organized and existing under and by virtue of the laws of the State of Connecticut, having its principal place of business in New York City, New York.

2. The defendants, E-T INDUSTRIES, INC. (E-T) and PYRAMID ENTERPRISES, INC. (PYRAMID), are defendants in Civil Action No. 74-2089-R and E-T's principal place of business is in Benicia, California; PYRAMID's principal place of business is in Torrance, California. They are, as of April 30, 1975, dissolved corporations that have been merged into FDI, Inc., a Delaware Corporation, as divisions thereof.

3. W. R. GRACE & CO., INC. filed suit against E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES, INC., under Civil Action No. 74-2089-R.

4. Jurisdiction and venue are proper as to the patent infringement count under 28 U.S.C. 1338(a); however, as to the remaining counts, jurisdiction is lacking under

28 U.S.C. 1332(a)(1) and (c) inasmuch as the matter in controversy does not exceed the sum or value of TEN THOUSAND ($10,000) DOLLARS exclusive of interests or costs as will be explained hereafter.

5. In these proceedings, plaintiff seeks to enjoin defendants E-T and PYRAMID from manufacturing the accused wheels Exhibits C, CJ through CZ, on the basis of claimed design patent infringement. Also, damages and profits are being sought, as a result of this alleged infringement. In addition, common law and state trademark infringement as well as unfair competition and dilution claims based on the alleged trademark infringement are combined in Counts II, III, IV, V and VI. Plaintiff's Complaint also seeks an injunction and profits and damages for infringement and/or misappropriation of its alleged trademark "WIRE MAG" on the basis of use of the words "wire," "wire dish" and/or "wire dish" with "mag" on defendants' accused wheels.

6. E-T and PYRAMID assert that the patent is invalid and unenforceable; that even if the patent is considered valid there has been no infringement on said patent; and, in addition thereto, E-T claims that it has not infringed plaintiff's trademark "WIRE MAG" by the use of "WIRE DISH MAG," "WIRE DISH" or "WIRE," on or in connection with its wheels, and that the trademark WIRE MAG is not a valid trademark because it is descriptive and generic on the wheels to which it is applied.

7. Custom wheels for automobiles have been manufactured since at least the early '60s, and such wheels include cast aluminum, or mag wheels of various designs, and they are intended to enhance the appearance of the vehicle.

8. The Mochel patent was issued on February 12, 1974 under Design Patent No. 230, 353.

9. The earliest Mochel claimed to have conceived the wheel was April 20, 1971 (two weeks after seeing the Chaparral wheel) but there is no evidence that such conception was made solely by him in view of the Japanese drawing where the wheel illustrated in the Mochel patent is the wheel as modified by the Japanese in Exhibits Nos. 73 and GB.

10. The Mochel patent is not only obvious over the prior art, but it is also anticipated by the prior art and, therefore, is invalid on the basis of both 35 U.S.C. 102 and 35 U.S.C. 103. The most pertinent prior art is found to consist of the Chaparral wheel as shown in Exhibits Nos. 65, O, G, F, GM, GS, JU; E-T IV wheel as shown in Exhibit No. 151; and the Rader and Trans-American wheels as shown in Exhibits Nos. AJ, GR, GS, GU, GW; Wire Wheel Exhibit P and the Thompson Patent, Exhibit AX. This prior art is more pertinent to the Mochel patent than the prior art that was found and cited by the Examiner in the File Wrapper History of the Mochel patent.

11. The Chaparral wheel as illustrated in Exhibit No. O invalidates the Mochel patent on the basis of 35 U.S.C. 102 because its differences from the Mochel patent are insubstantial from a design standpoint. The Chaparral wheel was designed and used by the world-famous auto racer Jim Hall during the 1960's. Some of the publications of the Chaparral wheel are for patent purposes identical to the design of the Mochel patent. Specifically, as seen from Exhibits Nos. O, FG, 65, the Chaparral wheel is a deep-dished wheel having lattice work that is substantially the same as the Mochel wheel design. As seen in Fig. 1 of the

Mochel patent, the lattice work formed by the intersecting simulated wire members includes small triangularly-shaped areas about the inner hub portion. Viewing outwardly from the solid triangular-shapes, the next shape is that of a small elongated diamond followed by another triangular shape adjacent the bore of the rim. Thus, only the small triangles adjacent the bore spell the difference between the Chaparral and Mochel wheels. This slight difference between the Mochel and Chaparral lattice work are so insubstantial that even plaintiff's expert witness, Barris, admitted that these small triangles formed by the lattice work adjacent the bore are unnoticeable to the ordinary persons, and the design at the center is established prior to coming to this small portion of the wheel and is not altered by that small portion of the wheel and, therefore, is unnoticeable to the eyes of the ordinary person. (Barris Dep. of Feb. 12, p. 164, lines 9-23). The Chaparral wheel was Mochel's starting point and admittedly at Roy Vachon's request Mochel secured a back issue of West magazine—the issue of October 25, 1970—which at page 16 depicted an automobile referred to as the "Chaparral 2J." Vachon requested that Mochel prepare production drawings for a "street version" of a cast wheel like the wheel depicted in this magazine. Despite the substantial identity of the Mochel design to that of Chaparral, GRACE never disclosed its knowledge of the Chaparral wheel to the Patent Office during the prosecution of the Mochel patent; several of the arguments presented to the Patent Office could not have been presented to the Patent Office had the Patent Office known of the Chaparral wheel, in view of the fact that the Chaparral wheel contained the features upon which

the patentee Mochel based his arguments for patentability. The five differences argued in the File Wrapper History on pages 11 and 12 of Exhibit AT were testified to by Harness as either being satisfied by the Chaparral wheel or as being inherently functional in a casted wheel such as the Chaparral wheel. The accentuated deep smooth rim argued and shown at pages 14, 15 and 16 was also prior art as shown by the Trans-American publication, Exhibit AJ, and the publications of Chaparral, Exhibit 65, and the Firebird with the beauty rim, Exhibit GW. Thus, the Patent Office was misled because it just did not have the facts regarding the prior art.

12. Thompson (Exhibit AX) and Exhibit P both teach lattice work similar to the Mochel patented design. Specifically, the Thompson patent, as well as Exhibit P, illustrate small triangular areas alternating with large pentagon shaped areas at the bore of the rim.

13. The E-T IV wheel shown in Exhibit No. 151 is similar to the Rader wheel illustrated in the publications cited by the Patent Office, except that there are substantial differences, which should be noted. First, the E-T IV wheel teaches a combination of a deep-dished wheel having substantially similar simulated cast wire center to that of the Mochel patent. Second, the E-T IV wheel has small solid triangle areas adjacent to the inner periphery. During the prosecution of the Mochel patent, Applicant argued that his solid triangular areas were not found in the Rader wheel shown in the Sports Car Graphic publication Exhibit No. 91. Therefore, the E-T IV wheel also contained better prior art than the Patent Office considered prior to allowing the Mochel patent. These features along with the deep clean sweep rim make the wheel more pertinent to the Mochel patent than the Sports Car Graphic publication Exhibit No. 91, did not show and was not truly representative of the Trans-American wheels that were in the prior art, since there was no clean sweep rim shown so as to give the cross-over effect, illustrated in the Trans-American publication Exhibit No. AJ, which plaintiff argued in the Patent Office was created by the use of a combination of the lattice structure with the wide clean sweep rim. (See page 15 of Exhibit No. AT.)

14. The evidence of record showed that the patent is invalid under 35 U.S.C. 102 since the differences, if any, of the Mochel patent over the closest pertinent prior art, as hereinabove set forth, are insubstantial, and both the prior art as set forth above as well as the Mochel patent create the same visual impression on the eye of the ordinary observer. Mere visual inspection of the devices can be made by this court, since there is no question of fact concerning the existence of the prior art testimony or controverted evidence as to what the prior art shows, such determination can be made by the court without reference to extrinsic controverted facts.

In rendering this decision, the court takes notice of plaintiff's witnesses, including expert witness Barris, who contended that the rim of the Mochel patent washes out and does not have an effect from a design patent standpoint on the design of the wheel to create a distinct visual impact on the ordinary observer. In addition, the witnesses Barris, Mochel and Kravat all admitted that it was obvious to combine Chaparral, Thompson, Rader, the Dune Buggies and Voxmobile, and Exhibit P to produce the wheel shown in the Mochel patent and, therefore, the Mochel patent is

a patent covering an existing design, wherein the differences over the prior art are insubstantial to the eye of an ordinary observer.

15. As to "obviousness" governed by 35 U.S.C. 103, the Mochel patent is invalid since it is no more than what an ordinary designer at the time of the invention would have done in modifying the Chaparral wheel for street use in view of the prior art, since the differences are substantially ordinary modifications or extractions of existing designs, or are functional and therefore do not give rise to patentability of a design. The testimony of Davis confirmed that the selection of the cast wire configuration was merely functional and depended upon the design parameters dictated by the requirements for eliminating large spaces to pass certain tests prescribed by SEMA, etc., and in order to pass these and still maintain the appearance of a wire wheel, the 45° angle with 20 spokes in the configuration shown was selected. Further, the testimony of Mochel and Harness confirmed that the tapering of the lattice work was due to casting procedure, as well as to the functional object of obtaining stretch of the spoke. The shortening of the spokes from the Chaparral due to greater cross-over also created greater beam strength. (Ex. IT).

Barris, from the stand, contended that the wide rim was not a part of the Mochel design since the rim is functional and depends on whether a wide or a narrow tire is used. Thus, the differences between the prior art and the Mochel patent, if any, are primarily functional rather than ornamental and the patent is invalid under 35 U.S.C. 171.

16. The secondary factual considerations prescribed by the *Graham* case are not found in this case,

since the alleged commercial success was never proven. What sales were shown were shown to have been obtained by heavy financing by GRACE through an "easy pay" plan as well as by heavy advertising and promotion, the first heavy advertising and promotion ever embarked upon by Appliance Industries and made possible by GRACE'S acquisition of Appliance. The evidence failed to show that sales of such wheels were profitable and therefore that there was commercial success or that anybody recognized the patent through licensing. In addition, the evidence failed to establish that E-T and/or PYRAMID copied the wheel in question. Davis testified that he had knowledge of the Rader wheel as well as the Trans-American wheel, together with the SEMA 5-1 specifications and the wheels that he had seen during the period that he worked at Cragar and was testing wheels. This was prior to the time he designed the E-T Wire Wheel.

17. The Mochel patent is invalid and unenforceable since Mochel, Merritt and/or Harness jointly and severally, as well as GRACE, are guilty of unclean hands and/or fraud in their conduct before the Patent Office which included, among other things, the following representations that affected the proceedings in the Patent Office such as:

(a) Witholding information pertaining to the Chapparal wheel and Trans-American wheels.

(b) Filing of the Merritt Affidavits despite the fact that he never checked the accuracy of the affidavits and they were in fact grossly inaccurate and misleading. The first affidavit argued commercial sales of a particular wheel shown to the Patent Examiner and such wheel not only was never sold, but the sales repre-

sented to the Patent Office were not of wheels that were alike in character to the one shown to the patent Office. The sales included small sized wheels which did not have *deep smooth rims*. Also, the sales were made on the basis of an "easy payment" plan, admittedly brought into effect for the first time by GRACE'S heavy financial resources after acquisition of Appliance Industries.

(c) The arguments and proceedings in the Patent Office completely mischaracterized the Rader wheel as being stepped despite the fact that GRACE an/or its employees knew or should have known that Rader combined the center of its wheels with rims having "clean sweeps" as shown in the Trans-American wheels which were pictured in the Mochel company file and were mentioned to Harness per Exhibits AJ and IT. Further, it was common knowledge throughout the industry that smooth deep rims could be united with different centers as per Mochel's and Barris' testimony.

(d) Withholding information pertaining to the Chaparral wheel was fraudulent in view of the fact that the very features shown by the Chaparral wheel and argued at points 1-5 on pages 14 and 15 of the Mochel File Wrapper History are shown in the Chaparral wheel or are inherently functional in a casted simulated wire wheel structure of the type embodied in the Chaparral wheel. (Harness' testimony.) This was also fraudulent because the Chaparral wheel was the starting point for Mochel in early April 1971 just two

weeks prior to April 20th, the alleged date of conceiving the patented wheel. (Mochel testimony.)

(e) Merritt's second Affidavit giving the appearance that the advertising of Appliance is minimal is certainly grossly fabricated since the record brought out that Merritt, a CPA and lawyer, did not check the records of the company, but filed an Affidavit that he knew was "mistaken." The Affidavit was changed, and he considered the Affidavit for a long period of time. The facts and circumstances of his testimony brought out that not only should he have known of the expenditure of approximately $60,000 for advertising and promotion because he was President of his division (Exs. JY1 and JY2) and his company kept books in the ordinary course of business and he was privy to same. He received correspondence and comments from customers of different magazines as well as industry people in the trade about the different ads they ran in different magazines. All these factors show circumstances that establish the bad faith of Merritt in signing the particular Affidavits involved.

20. There is no infringement of the Mochel patent by the accused wheels of E-T or PYRAMID because the wheels manufactured by E-T and PYRAMID are not deceptively similar to the ordinary observer. The proceedings in the Patent Office preclude interpreting the Mochel design from being read on the defendants' wheels, since such interpretations recaptures what plaintiff admitted was in the public domain during the

proceedings. Further, if there are any features of the Mochel design that are utilized, they are primarily functional features, and utilization of such features does not prove misappropriation of a design. In this case, there is no conflicting evidence on the configuration of the E-T wheels accused to infringe. The arguments in the Patent Office as well as the configuration of the wheel shown in the patent establish that the shape of the rim is different, E-T's spokes are rounded and appear to be overlapping at the intersection, as opposed to the Mochel wheels which are flat.

Also, E-T uses oval-shaped lug bolt apertures with a patented UNI-LUG feature which means that their wheels are universal as compared to the Mochel wheels which are only for one bolt diameter. The difference in appearance as well as the absence of contrary evidence and the proceedings in the Patent Office dictate a conclusion that the wheels in question do not infringe. A comparison of E-T and PYRAMID's wheels with the Chaparral wheel as illustrated in Exhibit 65 shows that E-T's wheels more fully proximate or are closer to the Chaparral wheel than to the patented design. Also, the Trans-American wheels shown with the different types of rims in Ex. AJ, including the stepped type of steel rim that E-T uses, would certainly be closer to the E-T wheel than it is to the patented design. Thus, E-T's two-piece wheel does not infringe but rather its design is patterned after the prior art.

PROPOSED CONCLUSIONS OF LAW

1. The presumption of validity regarding design patents is weak, since the expertise normally required in the Patent Office when dealing with complex utility patents is not required in determining the similarity of two designs "in the eye of an ordinary observer".

For a design patent to be valid, it must be (1) new, (2) original, (3) ornamental, (4) non-obvious, (5) not primarily for purposes of serving functional or utilitarian purposes. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (1970).

The design patent in question is not new, is not original, is not ornamental, nor is it unobvious. Accordingly, it is invalid under 35 U.S.C. §171, 35 U.S.C. §102 and 35 U.S.C. §103.

2. The presumption of validity flowing from the grant of a patent is greatly weakened if not destroyed when pertinent prior art has not been cited by the Patent Office. A patent is not entitled to a presumption of validity over prior art which the Examiner did not cite. In this case, where the prior art is exemplified by Thompson Exhibit AX; Chaparral Exhibits O, 65, and GM; E-T IV Exhibit 151, and Rader and Trans-American wheels, Exhibits AJ, GS, GU, the closest pertinent prior art found in the Patent Office and cited by the Examiner in the File Wrapper History was not as close as the prior art uncovered by defendants. Moreover, if the Patent Office would have known about the art uncovered by the defendants, the arguments in the Patent Office could never have been made to obtain the allowance of the patent. Accordingly the plaintiff has not carried its burden of proof that the Patent Office considered the non-cited prior art prior to the issuance of the patent. Thus, the presumption invalid. *J. B. Manufacturing Corp. v. Ajax Hardware Manufacturing Corp.*, 287 F.2d 228 (9th Cir. 1961); *Dresser Industries, Inc. v. Smith Dwyer Inc.*, 322 F.2d 878 (9th Cir. 1963).

3. The Mochel patent is invalid under 35 U.S.C. §102 since the differences between it and the prior

art, if any, are insubstantial and the designs created by the prior art create the same visual impression on the eye of an ordinary observer. *Duplex Straw Dispenser Co. v. Harold Leonard & Company, Inc.*, 229 F. Supp. 401 (S.D.Cal. 1964); *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 995 (9th Cir. 1970).

4. As a matter of law, the differences, if any between the design of the Mochel patent and the prior art are obvious and under 35 U.S.C. §103 since they amount to mere routine modifications of existing designs shown in the prior art as exemplified by the Thompson patent, E-T IV, Chaparral, Rader, and Trans-American wheels. A new impression upon the eye cannot be produced by small differences between the design in question and the prior designs. Such small differences are well within the creative ability of an ordinary designer. Thus, on the basis of pre-existing design and minor diferences, this patent is invalid. *J. B. Manufacturing Corp. v. Ajax Hardware Manufacturing Co.*, 287 F.2d 288 (9th Cir. 1961). There must be a substantial difference in design over the prior art in order that the design be patentable. Minor or small differences which do not produce a new impression upon the eye are not enough to create novelty. *Duplex Straw Dispenser Co. v. Harold Leonard & Co.*, 229 F. Supp. 401-403 (C.D.Cal. 1964).

5. When the differences between the prior art are functional rather than ornamental as in this case, the patent is invalid based on 35 U.S.C. §171. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (1970); *Payne Metal Enterprises Ltd. v. McFee*, 382 F.2d 541 (9th Cir. 1967); *Bentley v. Sunset House Distributing Corp.*, 359 F.2d 140-145 (9th Cir. 1966).

6. No amount of secondary considerations prescribed by the *Graham* case can breathe life into an invalid patent. Accordingly, there is no need to go into the *Graham* secondary considerations in this case. *Payne Metal Enterprises, Ltd. v. McPhee*, 382 F.2d 541 (9th Cir. 1967).

7. Merritt, Mochel and Harness are guilty of fraud and the patent is unenforceable since they and Grace knew or should have known that the Patent Office's issuance of the patent would have been affected by the non-disclosure of the Chaparral and Trans-American wheels which contained simulated cast wire wheels having deep dish centers with clean sweep rims. These were the structural features that were relied on so heavily for patentability on pages 11 through 15 of the Mochel patent File Wrapper History and they as reasonable men should have brought this prior art to the Patent Office's attention. This should have been even more evident to Mochel and Harness, since Mochel wrote Harness a note telling him, in effect, that he did not feel his wheel was patentable over the Chaparral and Trans-American wheels. (Ex. IT) *Intermountain Research & Engineering Co. v. Hercules, Inc.*, ... F. Supp. ...., 171 U.S.P.Q. 577 (C.D. Cal., 1971).

8. As a matter of law, the plaintiff should have known that reckless and inaccurate misrepresentations concerning advertising promotion and sales of the patented wheel would have affected the Patent Office's decision to allow the Mochel patent in what was termed by the Patent Office as a "close case". The Patent Office's rejection at page 22 of defendants' Exhibit AJ stated:

> "In close cases the manner in which the public receives an invention is sometimes persuasive

> that patentable invention existed . . . *commercial success, however, often results from sources other than that which is resultant from invention, which is believed to be the case herein . . . the claim is again rejected.*" (emphasis ours)

Merritt's false affidavit in response to this rejection fell into the category of a misrepresentation which he knew or should have known was false and he knew or should have known that it would have affected the decision of awarding the patent to plaintiff. Merritt was an officer of the plaintiff corporation; and the corporation kept books in the ordinary course of business which he admitted he was privy to and the books indicated the amount of advertising that Appliance Industries had done in the period in question. Such actions on the part of Merritt are especially outrageous and fraudulent, when it is borne in mind that Merritt is a CPA and attorney; and accordingly, must be held to a higher standard of care in executing affidavits, where the affidavit appears to be executed on the basis of his personal knowledge. Further, in this case, the representations regarding "commercial success with very little advertising" were at the very foundation of the patent grant and were constantly relied upon by the applicant to obtain the patent. This leaves no room whatsoever for speculation that such actions on the part of Merritt in underplaying the advertising did affect, the outcome in issuance of the patent in suit. (See pages 22, 23, 24, 25, 38 of Mochel File Wrapper History, Ex. AT).

9. In this case, infringement can be determined as a matter of law, due to the fact that the question of infringement is a matter of construction of uncontroverted evidence and no extrinsic evidence is needed

to explain terms of art or to apply descriptions. *Oxnard Canners v. Bradley,* 194 F.2d 655 (9th Cir. 1952); *Dolgoff v. Kaynar Co.,* 18 F.R.D. 424 (S.D. Cal. 1955); *Del Francia v. Stanthony Corp.,* 278 F.2d 745 (9th Cir. 1960); *Hansen v. Colliver,* 282 F.2d 66 (9th Cir. 1960). The proceedings in the Patent Office preclude interpreting the Mochel patented design to include defendants, E-T and PYRAMID'S, accused wheels, because such interpretation would recapture what plaintiff admitted was in the public domain, during the prosecution of the Mochel application in the Patent Office. During the course of the proceedings at pages 14 and 15 of Exhibit AT, the Mochel File Wrapper History, one of the arguments made by the plaintiff in attempting to overcome the prior art was:

> "Incidentally, in discussing this wheel with experts at Appliance Industries, Counsel for Applicant was informed of another difference over the Rader wheel, of reference. The wheel of this Application offers a "deep-dish" design with a clean sweep from the rim to the center. This is shown for example in Figure 4. The illustration of the Rader wheel shows a "shallow-dish" design with a couple of "steps" from the rim to the center. As to this feature, the Rader wheel is not believed to teach the clean sweep design of the instant wheel. The difference is really shown best in perspective view, and Counsel for Applicant is enclosing on an attachment hereto (Exhibit A) one of the photographs shown to the Examiner at the interview. This photograph clearly shows the "deep-dish" feature."

On the basis of the file wrapper estoppel as a matter of law, I hold that the interpretation of the patent

was narrowed following a rejection on the basis of prior art patents, the effect being to insert a narrower interpretation of the design having limitations preventing them from reading on the prior art patents. In view of the heavy reliance placed in the Patent Office on the smooth deep rim, and, in view of the fact that the defendants used the commercially available stepped rim which is like an ordinary OEM steel rim which is highly polished. *Stimulant Products, Inc. v. Vibrex Corp.*, 161 U.S.P.Q. 513 (C.D.Cal. 1969) no infringement can be asserted against defendants.

10. There is no evidence of record that the general public has come to recognize the term "WIRE MAG" as a trademark owned by plaintiff, and all of plaintiff's Counts II, III, IV, V and VI depending on the trademark significance of "WIRE MAG" should be dismissed.

11. Defendants, E-T and PYRAMID, are entitled to judgment dismissing Count I in view of the fact that the Mochel patent in suit is both invalid and not infringed.

12. This is an exceptional case within the meaning of 35 U.S.C. §282 where both fraud and bad faith have been established by the evidence of record. Accordingly, on the basis of this being an exceptional case, defendants are entitled to recover their costs including reasonable attorney's fees in defending this action.

13. Under Rule 41(b) F.R.C.P. defendants can move to dismiss a case where the plaintiff has not proved its case by a preponderance of the evidence. A judgment thus rendered is a decision on the merits of the case. *Moon v. Dulles,* 237 F.2d 241 (9th

Cir. 1956); *Young v. United States,* 111 F.2d 823 (9th Cir. 1940); *Ellis v. Carter,* 328 F.2d 573 (9th Cir. 1963). As a matter of law GRACE has failed to prove its claim by a preponderance of the evidence. *United States of America v. Huck Manufacturing Company,* 227 F. Supp. 791 (E.D. Mich. 1964). In *Barr v. Equitable Life Assurance Society,* 149 F.2d 634 (9th Cir. 1945), the Ninth Circuit Court of Appeals stated:

> "To us, the rule embodies sound common sense, it would be absurd to *waste the Court's time* and to impose upon the parties, both *waste of their time and that of their counsel and the witnesses,* together with the unnecessary expense in offering the defendant's evidence which, with reasonably efficient advocacy, would not do more than enlarge the record." (emphasis added)

Rule 41(b) was meant to be used in situations like the case at bar. Accordingly, it is unnecessary for E-T and PYRAMID to put in any further evidence to sustain their case. The needless expense as well as the Court time involved in presenting E-T's defense and GRACE'S rebuttal is certainly unwarranted.

14. Any finding of fact entered into herein which may be considered in whole or in part as a conclusion of law shall be so deemed and treated as if set forth as a conclusion of law herein and any conclusion of law entered herein which may be construed in whole or in part as a finding of fact shall be so deemed and treated.

/s/ Manuel L. Real
MANUEL L. REAL, JUDGE

Entered:

Opinion.

United States Court of Appeals for the Ninth Circuit.

W. R. GRACE & CO., INC., a corporation, v. WESTERN U. S. INDUSTRIES, INC., a corporation, Appellee. No. 75-2574.

W. R. GRACE & CO., INC., a corporation, Appellant, v. E-T INDUSTRIES, INC., a corporation, and PYRAMID ENTERPRISES, INC., a corporation, Appellees. No. 75-2563.

Filed: Oct. 9, 1979.

Appeal from the United States District Court for the Central District of California.

Before: CHAMBERS and GOODWIN, Circuit Judges, and FITZGERALD*, District Judge.

GOODWIN, Circuit Judge:

W. R. Grace & Co. appeals judgments of dismissal and the award of attorney's fees against it in consolidated actions that Grace brought against two defendants for patent infringement. We affirm.

Grace owns Design Patent No. 230,353, for a custom automobile wheel. In one action, Grace sued Western U. S. Industries, Inc. (Western). In the other action, Grace sued E-T Industries, Inc. and Pyramid Enterprises, Inc. for infringement. (E-T and Pyramid are both divisions of FDI, Inc., and will be referred to jointly hereafter as E-T.)

Mochel, an employee of Appliance Industries, Inc., was instructed by his superior to design a "street version" of a wheel depicted in a magazine artist's rendi-

*The Honorable James M. Fitzgerald, United States District Judge for the District of Alaska, sitting by designation.

tion of a Chaparral race car. Mochel borrowed much from the Chaparral design, but he made some changes. For example, rather than having the spokes of the wheel meet at the outer rim, he had them crisscross a short distance away from the rim, toward the center of the wheel. The effect was to eliminate starlike "points" from the rim area and create small triangles there instead. In addition, he increased the number of spokes, changed their draft angle, and thickened them toward the back of the wheel.

In September 1971, Appliance applied for a patent on Mochel's design. Appliance then assigned its rights in the design to Grace, incident to a liquidation and takeover of Appliance by Grace. This assignment set in motion a two-year application process in which the Patent Examiner twice rejected the design as unpatentable.

The first rejection came in November 1972. The examiner rejected the design as obvious in view of the prior art. He cited the Rader wheel, which appeared in a 1965 issue of *Sports Car Graphic* magazine, and also cited a patent issued to one Chandler.

In January 1973, Grace responded to the rejection by pointing out five alleged differences between the prior art cited and the Mochel design. In a February 1973 interview with the examiner, Grace showed photos of a Mochel-style wheel on an automobile. In March 1973, Grace amended its response to point out a sixth difference and to give sales figures for the pictured wheel. The sales figures were submitted in an effort to show that Grace had enjoyed commercial success in marketing the design, thus bolstering its case for patentability.

In April 1973, the examiner again rejected the application. In addition to the Rader and Chandler wheels cited in the prior rejection, the examiner also referred to Burchard and Hibbard patents. Answering Grace's assertion of commercial success, the examiner said that, while such information is relevant in close cases, apparently impressive sales could be explained by factors other than novelty of design. Thus, the commercial success argument was rejected.

On July 3, 1973, Grace again responded. In another attempt to distinguish the prior art, it declared that it had created a novel combination of prior art elements in addition to its new elements. Returning to its earlier commercial-success argument, Grace submitted five affidavits from distributors of its wheels and an affidavit by Floyd Merritt, president of its Appliance division. These documents were to become crucial in the trial of these cases.

The affidavits of the distributors were virtually identical; all asserted that "[w]e [the distributor] have no particular advertising campaign as such for any of these wheels." The Merritt affidavit declared: "Our major advertising so far has been a one-page ad in *Car Craft,* when we first offered the Wire Mag wheel, in 1972." The trial court later held the Merritt affidavit to be false.

Between June 1972 and July 1973, Grace had run 18 advertisements for the Mochel wheels, spending more than $56,000 to reach consumer and industry audiences. In addition to several ads in *Car Craft* (maximum amount spent per ad: $3,470) were four ads in *Hot Rod* magazine, three of which were full pages and two of which cost more than $9,000 each,

and an $8,000 ad in *Motor Trend.* While *Car Craft's* circulation is about 300,000, *Motor Trend's* is more than 600,000, and *Hot Rod's* is more than 800,000. Also included in the $56,000 advertising expense was $15,800 spent for the production and printing of thousands of promotional kits, which included poster-size reproductions of one of its full-page color ads.

After Grace filed the controversial affidavits, Grace petitioned the examiner to "make the subject application special", thereby accelerating its processing. On October 4, 1973, the examiner allowed the patent to issue.

Grace commenced these actions, and demanded a jury trial in both. In the action gainst E-T, the demand was made later than 10 days after the last pleading was filed. Because the demand failed to comply with Fed. R. Civ. P. 38, Grace moved for relief under Fed. R. Civ. P. 39(b). The trial court could have granted a jury trial, in its discretion, despite Grace's failure to make timely demand. The court denied the motion and tried the two cases together, but to different finders of fact: the E-T case to the trial judge, the Western case to the jury.

After the close of Grace's case, the court directed a verdict for Western and entered a judgment of dismissal under Fed. R. Civ. P. 41(b) for E-T. The court found the design patent to be anticipated, obvious, authored by parties other than Mochel, procured by fraud on the Patent Office, and not infringed. The court also awarded fees and costs to both defendants on the ground that the case was "exceptional" within the meaning of 35 U.S.C. § 285, the attorney's fees section of the patent statute. This appeal followed.

The "Unclean Hands" Defense

The Supreme Court has made fraud on the Patent Office in the procurement of a patent an equitable defense to an infringement action. *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). In *Precision Instrument*, the Court quoted as its "guiding doctrine" the equitable maxim that "he who comes into equity must come with clean hands." 324 U.S. at 814. It stressed that patent monopolies are "issues of great moment to the public," 324 U.S. at 815, particularly suited to "the equity court's use of discretion in refusing to aid the unclean litigant." *Id. See also Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933).

That fraud on the Patent Office is also a defense to an action for damages caused by patent infringement is indicated by *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944), *overruled on other grounds, Standard Oil of California v. United States*, 429 U.S. 14, 18 (1976). There, the fraud was an article written by the plaintiff's attorney, but fraudulently represented to be by another author. Not only did the article deceive the Patent Office, but it also deceived the Third Circuit, which in 1932 reversed a district court's finding of patent invalidity and ordered an accounting for damages. 59 F.2d 399. Several years later the fraud was uncovered, and the Third Circuit reversed itself and recalled its old mandate.

The Supreme Court affirmed the Third Circuit's turnabout. It declared that "[h]ad the District Court learned of the fraud on the Patent Office at the original infringement trial, it would have been warranted in

dismissing Hartford's case." 322 U.S. at 250. It then held that the Third Circuit judgment of 1932 must be vacated, and that therefore "the case now stands in the same position as though Hartford's corruption had been exposed at the original trial. In this situation, the doctrine of the *Keystone* case, *supra*, requires that Hartford be denied relief." 322 U.S. at 250-51. *See Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970) (fraud as complete defense to damages action under "unenforceability" language of 35 U.S.C. § 282(1)). *See also Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) (fraud on Patent Office as basis of claim under section 2 of Sherman Act); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 294 (9th Cir. 1969) (dictum).

In the case before us, several factual grounds supported the trial court's determination that as a matter of law Grace had committed fraud on the Patent Office, and thus could not enforce its patent. Among them was the filing of the Merritt affidavit, which represented there had been minimal advertising for the Mochel wheels, while actually there was advertising far in excess of the single *Car Craft* advertisement discussed in the affidavit.

On appeal, Grace disputes these rulings. It declares that, at least insofar as it was a defense to patent validity, the question of fraud should have been left to the jury. Grace also argues that the evidence was insufficient to support a finding of fraud in any event, and that the court erred in excluding evidence highly probative of the state of mind of Merritt and other agents of Grace.

Merritt, president of Appliance, swore in his affidavit that the company's "major advertising so far [as of July 1973] has been a one-page ad in Car Craft." The evidence shows that this statement was made solely to dispel the expressed suspicions of the Patent Examiner that allegedly healthy sales of the Mochel wheels were due to forces other than novelty of design. Prior to the filing of this affidavit, and five others from distributors also representing the lack of any advertising campaign "as such", the examiner had steadfastly refused to approve the patent. Following the filing of this material, and a motion by Grace to accelerate the proceedings, the patent was granted. Grace admitted that its purpose in submitting the distributors' affidavits was to convey the idea that it had engaged in only a small amount of advertising; the only logical inference is that its purpose in filing the Merritt affidavit was identical. The Patent Office's reversal of its two earlier rejections upon receipt of these highly misleading affidavits leaves no doubt that they were material to, and a substantial cause of, the patent grant. There is overwhelming and undisputed evidence that the result was just what Grace intended. Therefore, the only issue that would even arguably merit jury consideration on a record such as this is the question of state of mind, or scienter.

A leading case discussing the scienter requirement for a finding of fraud on the Patent Office is this court's 1969 decision in *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co., supra.* There,

the court awarded attorney's fees to defendants in a patent infringement suit on the ground that the plaintiff had committed fraud on the Patent Office. *Monolith Portland's* view of the duty of patent applicants to be frank with the Patent Office, however, clearly has import beyond the attorney's fees context, It is also instructive on the question of scienter when defendants seek to assert fraud on the examiner as an affirmative defense. We held that the applicant did not have to be certain his or her statement was false or misleading in order to have failed in the duty of disclosure. The court found it sufficient that the plaintiff's "course of conduct * * * reveals a calculated recklessness about the truth." 407 F.2d at 297.

Merritt admits he erred in the affidavit, but insists it was only because he personally misunderstood his subordinates' reports about the advertising. Grace thus argues that there was a jury question presented on scienter. It is important to remember, however, that the plaintiff and patent holder here is not Merritt, but a corporation, Grace. Under well established agency doctrines a corporate principal is considered to know what its agents discover concerning those matters in which the agents have power to bind the principal. *See* Restatement (Second) of Agency § 272. And even when an agent has no reason to know the falsity of the representations he or she makes, the principal is liable if it knows the falsity and has reason to know the agent would make the statement. *See* Restate-

ment (Second) of Agency § 256. Under these rules, Grace clearly must answer for intentional or reckless misrepresentation as a matter of law. The evidence was undisputed that some agent of Grace had to know about the corporation's advertising for the wheels: thus, Grace must be said to have known it. And even if we assume that Merritt himself harbored no doubts about the truth of his affidavit—a dubious assumption on this record—the corporation, which knew the truth and had ample reason to know of Merritt's actions and statements, must be said as a matter of law to have known that the statements were false. In *Acme Precision Products, Inc. v. American Alloys Corp.*, 422 F.2d 1395 (8th Cir. 1970), the court followed *Walker Process Equipment Co. v. Food Machinery & Chemical Corp., supra,* and held that a corporation could be held liable under the antitrust laws for fraud on the Patent Office. The court held as a matter of law that the corporation knew of the falsity of its patent procurement tactics:

> "It is a well settled principle that knowledge of officers and key employees of a corporation, obtained while acting in the course of their employment and within the scope of their authority, is imputed to the corporation itself * * *." 422 F.2d at 1398.

With fraud on the Patent Office thus established, the Eighth Circuit remanded for a determination of other issues relevant to the antitrust cause of action.

In the case before us, Grace, through its Appliance division, was properly charged as a matter of law with knowledge of the extensive advertising program for the Mochel wheels. The statement of Appliance's president in an acknowledged effort to persuade the

Patent Office was therefore fraud on the Patent Office. The infringement actions were properly dismissed as a matter of law on that ground.[1]

Attorney's Fees

Grace also challenges the trial court's finding that the case was an "exceptional" one, in which the prevailing party is entitled to attorney's fees under 35 U.S.C. § 285. The attorney's fees issue presents the same questions as the defense of fraud on the Patent Office, but this court's standard of review is less stringent. The trial court's findings of fraud are reviewed closely because the directed verdict took the question from the jury. On the award of attorney's fees, this court defers to the trial court's discretion in determining fraud. *See, e.g., SSP Agricultural Equipment, Inc. v. Orchard-Rite Ltd.*, 592 F.2d 1096, 1102 (9th Cir. 1979). Cases involving fraud, "calculated recklessness", or bad faith in dealings with the Patent Office are precisely the "exceptional" cases for which section 285 is designed. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., supra.* In light of this legal principle, the standard of review, and the evidence summarized above, there was no abuse of discretion in the award of attorney's fees in this case.

Affirmed.

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[1]Since we affirm the trial court on the affirmative defense of fraud, we need not reach the issue whether the trial court erred in refusing to grant the jury trial in the E-T case while allowing it in the Western case. Fraud on the Patent Office is a complete defense, and since the trial court properly held there was fraud as a matter of law, no jury determination of any issue was needed. Grace has not shown that the trial court's decision to split the factfinding chores led Grace to present its case any differently than if both cases were tried to the jury.

Order.

United States Court of Appeals for the Ninth Circuit.

W.R. GRACE & CO., INC., a corporation, Appellant, v. E-T INDUSTRIES, INC., a corporation and PYRAMID ENTERPRISES, INC., a corporation, Appellees. No. 75-2563.

W. R. GRACE & CO., Inc., a corporation, Appellant, v. WESTERN U. S. INDUSTRIES, INC., a corporation, Appellee. No. 75-2574.

Filed: Dec. 27, 1979.

Appeal from the United States District Court for the Central District of California.

Before: CHAMBERS and GOODWIN, Circuit Judges, and FITZGERALD*, District Judge.

On November 6, 1979, appellant filed its petition for rehearing and suggestion for rehearing en banc.

The full court has been advised of the suggestion for en banc rehearing, and no judge of the court has requested a vote on the suggestion for rehearing en banc. Fed R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

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*The Honorable James Martin Fitzgerald, United States District Judge for the District of Alaska, sitting by designation.